

Small Business Owner's Fraud Checklist

Fraud is commonplace and can happen to any business, as evidenced by the frequent news stories on the subject. The 2020 Global Fraud Study by the Association of Certified Fraud Examiners (ACFE) revealed that the impact on businesses continues to grow. The total loss reflected of just 2,504 reported cases was \$3.6 billion, with median loss for all U.S. cases at \$120,000.

Small businesses have a staggeringly higher risk of fraud than large companies **due to lack of internal controls.**

As a business owner, what can you do? There are some basic actions business owners should take and review on a regular basis.

FRAUD PREVENTION CHECKLIST

- Check references and run background checks on all prospective employees and vendors. Ask previous employers if the prospective employee is eligible for rehire.
- Tone at the Top - Develop a written code of conduct that explicitly prohibits fraud, conflicts of interest, kickbacks and other illegal acts. Require that all employees annually confirm compliance with the code and that major vendors and customers are provided with a copy of the code. Practice and strictly enforce the code.
- Set an ethical example for employees to follow and treat them with respect and fairness, including fair pay.
- All employees or vendors that are added to the payroll or approved vendor listing **MUST** have your approval. Periodically review the payroll and approved vendor list to ensure none have been added without your knowledge.
- Require positive confirmation of vendor payment changes. Never accept changes from an email or incoming phone call. Call or email the contact information in the vendor master record to confirm changes.
- Personally approve credit memos, price concessions, vendor payment changes and bad debt write-offs.
- Only accept electronic payments from customers (ACH, Wire, Credit Card). If a check must be used for payment, have customers mail payments directly to a lockbox maintained by your bank.

- Require that your receptionist or someone independent of the accounting department open the mail and deliver any payments received directly to you.
- Implement a policy that only allows for payment on invoices that have been approved in accordance with authority limits.
- Only make payment via electronic means. If a check must be used for payment, make sure you are the only signatory on the bank account, and never use a signature stamp for check signing. Notify your bank that only original signatures are valid.
- Require that the bank obtain your authorization for all electronic fund transfers.
- Have supervisors review employee time daily to ensure time worked was reported accurately.
- When employees leave, be sure to disable access codes and passwords immediately on such things as software, network, email, laptops, hard drives, office, banking information if they had access and even online subscriptions. While not an all-inclusive list, this should provide a start to a list of the technology that could be vulnerable. Ensuring that your technology is secured can help prevent breaches.

FRAUD DETECTION CHECKLIST

- Cash disbursements and receipts should be reviewed in detail by a CPA at least annually to ensure all recorded transactions are supported by valid source documentation and are consistent with business reality.
- All bank accounts should be reconciled monthly by someone other than the person making payments if possible.
- Review monthly bank reconciliations, along with the bank statements, in detail for irregularities such as unexpected declines in balance, overdrafts and unusually large disbursements. These reconciliations should be reviewed periodically by a CPA to ensure the propriety of the reconciliation.
- Review monthly financial statements in comparison to budget and prior period actual and investigate unusual fluctuations. Also compare financial ratios to expectations.
- Take note of employees who appear to live substantially beyond their means.
- Send monthly statements of customer account balances. The statement should indicate the name and number of a contact person, who is independent of the accounting department, to call with complaints/discrepancies.
- Have a CPA review the payroll function at least annually to ensure that pay rates are consistent with the employee's personnel file and that hours paid agree to manual timecards or time sheets.
- Require that key accounting personnel take a vacation at least annually and that someone perform their job function in the interim to detect possible irregularities.

- Perform a full goods and fixed asset physical inventory at least annually and investigate significant shrinkage.
- CREATE A TIP LINE - 47% of employee fraud is discovered and reported by a fellow employee in organization of less than 100 employees. Ask your employees to identify ways in which someone could commit fraud at your company and the ways to avoid it.
- Carry adequate fidelity insurance to limit your company's exposure to fraud losses.

According to the 2020 ACFE study, the presence of anti-fraud controls correlated with lower fraud losses and quicker detection.

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